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DEPARTMENT PASS TO USTR (AGAMA)
PASS TO OPIC (ANTONY IERONIMO AND DEBRA ERB)
DEPT OF TREASURY FOR DPETERS

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [NI](#)
SUBJECT: NIGERIA'S VISION--AFRICA'S FINANCIAL CENTER

Ref: Abuja 887

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¶1. Summary. On June 18-20, the Central Bank of Nigeria (CBN) unveiled its vision for Nigeria's financial future, presenting a report titled "FSS 2020, Building Africa's Center of Choice". The FSS 2020 vision refers to the potential for Nigeria to emerge as the top economy in Africa and the 20th largest in the world by 2020, and seeks to develop Lagos into a financial center and capital market comparable to Hong Kong, London and New York. The vision includes developing the Lekki Financial Corridor east of Lagos as an international financial services center with its own infrastructure managed to international standards. To support this vision, Nigeria will need to achieve impressive growth in GDP, foreign exchange reserves, banking, and insurance and pension reforms. President Yar'Adua has identified five key areas his administration will pursue to support this vision, including security, rule of law, infrastructure, stable exchange rates, and transparency. Major changes need to be made to the Land Use Act to facilitate land ownership, provision of housing and mortgage financing are also promised. The GON will need to address several challenges including maintaining political stability, improving institutional capacity, addressing trade policy, and providing infrastructure. End Summary.

How it all began

¶2. Financial System Strategy 2020 (FSS 2020) began in August 2006 when Charles Chukwuma Soludo, Central Bank Governor, organized a technical committee to draft a long-term framework to make the Nigerian economy one of the largest in the world by 2020. On June 18-20, the CBN hosted a conference to present the plan's main aim of creating a financial system that will enable Nigeria to emerge as the largest economy in Africa and the 20th largest in the world. A wide spectrum of people attended from domestic and international financial institutions, international developmental agencies, investment banks, and funds from both the domestic and international markets that discussed financial system reform, the economy, strengthening local markets, building an international financial services center, and supporting small and medium enterprises (SMEs). Breakout sessions addressed the legal framework, regulation, macroeconomic and monetary policy, human capital development, ICT/payment systems, financial markets, credit mortgage and insurance.

The Vision

13. Governor Saludo explained that FSS 2020 aimed to achieve Goldman Sach's prediction that Nigeria would be among the next eleven countries (dubbed the N-11) to surpass Italy in GDP by 2015 (reftel). A robust and vibrant financial sector would be needed to power Nigeria's new economy and to integrate Africa's financial systems. Before 2004, the financial system was characterized by low aggregate levels of banking to the domestic economy, systemic bailouts of banks by the CBN, an oligopolistic structure where 10 out of 89 banks accounted for over 50% of total banking assets. Nigeria had been primarily a cash based society, with a weak insurance industry, non-existent pension funds and a shallow stock market. Soludo had worked to recapitalize and consolidate banking, insurance and capital markets, to introduce micro-finance banks and convert community banks. He had taken steps to establish the Africa Finance Corporation within the CBN and to reform pension funds to generate long term investment funds. Further, Nigeria has seen its GDP increase to \$142 billion and per capital income to \$1,050 in 2006.

International Financial Services Center (IFSC)

14. In the medium-to-long term Nigeria needs to strengthen the domestic financial markets and further integrate with external financial markets before becoming an international financial services center. To strengthen domestic markets the country will need to develop capacity, develop non-oil sectors, integrate informal and formal financial sectors, and improve access to credit. To integrate with external financial markets the GON will need to create links to the international financial markets, move toward currency convertibility while maintaining macroeconomic stability, maintain healthy foreign exchange reserves, and unified and liberalize trade and commercial laws among ECOWAS and African Union countries. FSS 2020 will need a public- private partnership (PPP) approach with strong support in government institutions.

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15. The GON hopes to develop the Lekki Peninsula east of Lagos as the Lekki Financial Corridor (LFC). To attract international financial institutions the LFC will be set up as an independent corporation and municipality responsible for its own implementation, strategy, marketing and management with funding support from the government, private sector and international development agencies. The LFC will be run by a board of directors comprised of the heads of the major regulatory bodies in the country with a designated head/mayor. The LFC is to establish a legal and regulatory framework based on internationally recognized standards and jurisprudence. It will have liberal requirements on opening of capital accounts and currency convertibility, 100% foreign ownership, with an internationally competitive tax rate on income and profits. Implementation is slated for three phases. Phase 1, from June 2007-December 2012, will concentrate on the legal framework and beginning the physical development of the site. Phase 2, January 2013- December 2016 will focus on global branding, integration of African financial markets, development of the physical site for the LFC and review of strategic objectives. Phase 3, January 2017 to December 2020 will concentrate on final preparations for LFC.

President Yar'Adua's footprint

16. President Yar'Adua opened the conference and supported the vision of Nigeria as the financial hub of Africa. As at the recent G8 summit, he said his top three priorities were, "the economy first, the economy second, and the economy third". For Nigeria to prosper, it needed a sound financial network. He identified five key areas that his administration would pursue: the security of lives and property, respect for the rule of law, infrastructure with an emphasis on power, a stable exchange rate regime, and consistency in transparency and policy.

Can Nigeria compete?

¶7. Creating a financial and capital market comparable to the premier financial centers of the world is astonishingly ambitious. Nigeria does have several factors to support this ambition. One in five or 20% of all Africans are Nigerian. With the consolidation of the banking sector, eleven of the twelve companies in West Africa with a market capitalization of over \$1 billion are Nigerian and seven are banks. Twenty-nine of the 50 largest companies in sub-Saharan Africa (excluding South Africa) are Nigerian and 14 of these are banks. Nigeria's GDP is over 60% of the total GDP of the 16 countries that make up the Economic Community of West African States (ECOWAS). Nigeria is rated BB- (by Fitch and Standard & Poors) with external reserves of over \$40 billion. External debt is a low \$3.3 billion.

Challenges

¶8. On the other hand the challenges are enormous. Nigeria will need to establish political stability through a succession of governments with real legitimacy. The LFC board must be both capable and empowered with support from relevant institutions and adequate funding. The lack of infrastructure is a major obstacle. Nigeria's financial sector still has a long way to go in becoming more integrated with domestic economy, let alone the African economy. Nigeria and the region will need much more open trade policies, as financial flows tend to follow trade. Human resources will be another issue and Nigeria will need to upgrade the skills and experience for a broad range of employees in the finance and ancillary sectors. Another contentious issue is the need to reform the Land Use Act of 1978. Changes in the Act are crucial for the full development of the banking sector. The present structure of the act makes it virtually impossible to use and or transfer land and property as security because of its complexity. The efficiency of land registration, surveys and valuation need improvement.

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